# IMF Executive Board Reviews Facilities for Low-Income Countries and Eligibility for Using Concessional Financing

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On April 8, 2013, the Executive Board of the International Monetary Fund (IMF) reviewed the Fund's facilities for low-income countries (LICs) and eligibility to use the IMF's concessional resources under the Poverty Reduction and Growth Trust (PRGT). Both the framework for determining PRGT eligibility and the list of PRGT-eligible countries were reviewed.

**Background**

In 2009, the IMF introduced a new architecture of facilities for LICs with the overarching objective of making the facilities more flexible and tailored to the diverse needs of LICs. At the time, the Executive Board requested that experience with the new LIC architecture be reviewed after three years.

At the first stage of this review, discussed by the Executive Board on September 6, 2012, Directors endorsed a number of broad staff proposals and agreed to consider concrete proposals at a second stage. The Executive Board also discussed, on September 28, 2012, a strategy to make the PRGT sustainable. In that context, they endorsed a three-pillar framework consisting of: (i) a base envelope of about SDR 1¼ billion in annual lending capacity that is expected to cover concessional financing needs over normal periods; (ii) contingent measures that can be put in place when average financing needs exceed the base envelope by a substantial margin for an extended period; and (iii) a principle of self-sustainability under which future modifications to LIC facilities would be expected to ensure that the demand for IMF concessional lending can be met with the resources available under the first and second pillar under a plausible range of scenarios. These earlier deliberations, and the Board’s decisions therein, provided the context for the second stage of the Review of the Fund’s Facilities.

The framework for PRGT eligibility was established in 2010 and reviewed in 2012, and provides transparent criteria for Executive Board decisions regarding entry onto and graduation from the eligibility list. It is designed to ensure the uniformity of treatment across all members with similar vulnerabilities and aligns access to concessional resources with the objectives of the PRGT. The framework comprises differentiated criteria for entry and for graduation. In broad terms, countries enter the list if their annual per-capita income is below a certain threshold and they do not have capacity to access international financial markets on a durable and substantial basis. Countries are expected to graduate from the list if they have either a persistently high level of income or capacity to access international financial markets on a durable and substantial basis, and they do not face serious short-term risks. The framework also comprises special entry and graduation criteria for small countries, on account of their particular vulnerabilities.

**Executive Board Assessment**

Executive Directors welcomed the opportunity to consider together the eligibility criteria for members to use the Fund’s facilities for low-income countries (LICs) and concrete proposals to conclude the review of these facilities. They reaffirmed the objectives of improving the tailoring and flexibility of the Fund’s toolkit to meet the financing needs of its low-income members while preserving the self-sustainability of the Poverty Reduction and Growth Trust (PRGT). With these objectives in mind, Directors broadly supported the proposals, including transitional arrangements, set forth in *Eligibility to Use the Fund’s Facilities for Concessional Financing* and *Review of Facilities for Low-Income Countries – Proposals for Implementation*.

**PRGT eligibility**

Directors highlighted the need to maintain a transparent and rules-based framework for PRGT eligibility that ensures uniformity of treatment among members in similar circumstances. They also reiterated the importance of preserving the Fund’s scarce concessional resources for members with a low income level and vulnerabilities, and closely aligning eligibility with the objectives of the PRGT and with practices in the International Development Association. Directors broadly welcomed the proposed special provisions for very small states (microstates) in the PRGT-eligibility framework, in view of the unique challenges faced by them, although a few noted that some small states also face similar challenges and vulnerabilities, an issue that they felt should be addressed in future reviews of the PRGT eligibility framework. Directors also generally agreed that the proposed refinements to the market access criterion would help strengthen safeguards against the risks of "reverse graduation".

Applying the revised framework, Directors endorsed the proposed entry to the PRGT eligibility list of three microstates: Marshall Islands, Micronesia, and Tuvalu. They also endorsed the proposed graduation of Armenia and Georgia.

Directors agreed to conduct the next review of PRGT eligibility in 2015, noting that the framework allows for interim updates where warranted by the existing criteria and requirements.

**Blending and access**

Most Directors supported enhancing the blending policy along the lines of the first approach set out in *Review of Facilities for Low-Income Countries – Proposals for Implementation*, including as reflected in Table 4. They noted that the modifications provide a consistent approach for progressive graduation from Fund concessional financing, and that savings from enhanced blending would make the self-sustainability of the concessional financing framework more robust. A few Directors would have liked a less stringent option, while a few others also saw merit in lowering the income threshold to broaden the group of presumed blenders. Directors underlined that strong debt management would be essential for LICs as the concessionality of their borrowing declines.

Most Directors considered that access norms and limits, which had doubled in 2009, are broadly appropriate in nominal terms. Accordingly, and also taking into account the nature and scarcity of the Fund's concessional resources, these Directors agreed that, once the quota increase under the Fourteenth General Review of Quotas becomes effective, access norms and limits as a percentage of quota and the quota levels that determine the application of the procedural safeguards, as set forth in Table 4 of *Review of Facilities for Low-Income Countries – Proposals for Implementation*, should be reduced by half. A number of Directors expressed concern that several countries could face reduced access in SDR terms, and would have preferred a less than commensurate reduction. Some also emphasized the importance of ensuring evenhandedness in access policy. Directors recognized, however, that norms could be exceeded if warranted by the balance-of-payments needs of these countries. They saw a need to review these limits regularly in light of LICs' evolving financing needs. In this context, a number of Directors expressed concern about the risk of excessive compression of demand and urged that efforts continue to seek additional resources to increase the capacity of the PRGT.

Directors supported the proposed increase in the cumulative access limit under the Rapid Credit Facility (RCF). They noted that this would primarily benefit countries in fragile situations and those that are prone to natural disasters, some of which would be facing reduced nominal access norms and limits when the quota increase under the Fourteenth General Review of Quotas comes into effect, in accordance with the decision adopted today. Some Directors called for strong justification for RCF use and other safeguards against prolonged use of the facility.

Directors generally welcomed the proposals to augment access between scheduled reviews for on-track arrangements under the Extended Credit Facility (ECF) and Standby Credit Facility (SCF) in case of an acute increase in the member's underlying balance-of-payments problems that cannot await the next scheduled review, and the possibility to consider on a lapse-of-time basis requests for access not exceeding 25 percent of quota. Some Directors stressed the need for the Board to exercise prudence in considering augmentation.

**Precautionary support**

Directors supported relaxing rules under the SCF to encourage its use as precautionary, including permitting greater frontloading of support and easing time limitations on repeated use of SCF arrangements treated as precautionary. Directors emphasized that use of the SCF beyond the normal time limits in such circumstances should be supported by an explicit discussion of the member's balance-of-payments needs.

**PSI framework**

Directors expressed broad support for the various proposals to streamline procedures and increase operational flexibility in the Policy Support Instrument (PSI). The easing of requirements on documentation, timing of staff report issuance, and review schedules, as well as the extension of an initial duration, would help enhance the attractiveness of the PSI. Directors stressed the importance of not weakening the quality of its signal, and looked forward to additional operational guidance on PSI qualification criteria.

**ECF arrangements**

Directors endorsed the proposed refinements to ECF arrangements to allow longer duration and greater flexibility in setting their review schedules. They expected nonetheless that arrangements with initial durations of three years and program reviews at six-monthly intervals would continue to be used in most cases.

Directors also welcomed other proposals for operational streamlining. They noted that timely termination of defunct ECF arrangements would help unlock PRGT resources that would otherwise remain committed. Most Directors also favored easing procedural requirements related to the Poverty Reduction Strategy. A number of Directors underscored the importance of maintaining the strong focus on poverty reduction in LICs.

Directors agreed to conduct the next review of the Fund's facilities for low-income countries on the standard five-year cycle, noting that the review could be brought forward if warranted, while access norms and limits would be reviewed as warranted, in light of regular updates on the use of PRGT resources and projected needs, and future quota increases.

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